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Italian Political Activity Centers on Internal
Party Debates

Political activity in Italy now centers on debates taking place inside the Socialist and Christian Democratic parties over how to cope with the Communists' vastly strengthened position. These debates are not far enough along, however, to permit a renewal of the Christian Democratic-Socialist collaboration that has been the basis for most Italian governments since 1963.

The Socialists are holding a series of strategy sessions, at which party leader De Martino is pushing policies designed to stress Socialist autonomy from both the Communists and Christian Democrats. The sharp increase in Socialist-Communist collaboration at the local level since June has heightened Socialist fear of losing their image as an independent party and, in the end, being absorbed by the Communists. That fear is matched, however, by the Socialists' conviction that they will suffer at the polls if they agree to another traditional center-left alliance with the Christian Democrats.

To cope with this dilemma, De Martino is drawing a distinction between the party's long-range and short-range strategies. He recommends that the Socialists' long-range efforts be keyed to developing a grouping of leftist forces to replace the Christian Democrats as the dominant governing power. While the Communists would presumably be included in such a grouping, De Martino is already saying publicly that the Communists' continuing support for many Soviet policies rules out a "leftist alternative" for Italy in the near term. By talking about such

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an eventuality, however, De Martino distinguishes himself from Communist chief Berlinguer, whose long-term goal remains the "historic compromise," i.e. a rapprochement with the Christian Democrats that would leave no significant role for the Socialists.

For the near and medium-term, the Socialist leader believes that collaboration with the Christian Democrats remains the only political and mathematical alternative. He views the old center-left as "dead," however, and refuses to cooperate with the Christian Democrats unless they accept Socialist policy proposals to be unveiled at the party congress in February.

The Christian Democrats have not yet scheduled a congress, a fact which suggests they are ill-prepared to respond authoritatively to the Socialists. The latest Christian Democratic directorate meeting ended with a compromise between left and right-wing factions that called for a "competitive dialogue" with the Communists while maintaining the party's traditional "opposition" to them. Christian Democratic factional alignments, moreover, are in a state of flux, as exemplified by the defection of Foreign Minister Rumor from the largest centrist faction (dorotei). In general, the internal balance of power seems to be shifting toward the party left, and Rumor appears to be moving with it.

One bright spot is interim party leader Zaccagnini's success in securing approval of organizational changes which, if implemented, could limit the divisive impact of the factions and improve the party's ties with such key sectors of society as youth and organized labor. The withering of these ties over the years accounts in large part for the Christian Democrats' failure to capture more of the new voters in the June elections.

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At the moment, Defense Minister Forlani, a 49 year old centrist, is the frontrunner to succeed Zaccagnini when the Christian Democrats hold their congress. Elements of the party left who now support Forlani could back away from him if they conclude that he remains under the influence of his mentor, former party chief Fanfani.

The Communists, meanwhile, are translating their electoral success into tangible power. Allied with the Socialists, they now govern most major Italian cities and have increased their influence substantially at the regional and provincial levels.

[REDACTED] Communist chief Berlinguer [REDACTED] wants to move cautiously in consolidating his gains so as not to jeopardize his prospects for an eventual deal with the Christian Democrats, but he is having trouble enforcing that line with the more militant local Communist organizations.

The smaller parties, for the most part, are staying on the sidelines. Social Democratic leader Tanassi, however, has hinted cautiously at reuniting with the Socialists--an experiment the two parties could not make work between 1966 and 1969. The Socialists have shown no interest so far.

The Moro government--in which only the Christian Democrats and Republicans hold cabinet posts--remains a convenient expedient whose existence affords all of the parties time to sort out their options.

Consequently, no one wants Moro to fall just yet. But the Socialists have hinted at withdrawing their crucial parliamentary support if current government-labor talks on major contract renewals do not produce results satisfactory to the unions. On the other hand, if the unions get everything they want, the Republicans--who favor economic austerity--could pull out of the cabinet.

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A wide variety of Christian Democratic politicians agree, meanwhile, that because of its weakness, the Moro government can take no actions in parliament that are not acceptable to the Communist party.

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Iceland Extends Fishing Limits

Iceland's unilaterally-declared 200 mile fishing zone went into effect today, and its miniscule coast guard has been deployed into the area.

Iceland's fishing agreement with the British, which expires on November 13, permits restricted fishing within the old 50 mile zone. Negotiations with Bonn broke off last year and there is no current agreement.

The first round of talks with London on a new agreement last month was inconclusive. Opposition leftists in the meantime have stirred up public opinion against granting the British any fishing concessions in the new zone and the second round of negotiations has not been scheduled. The UK Ambassador in Reykjavik, however, has told the US Embassy that he hopes talks will resume in London next week.

The Icelanders' tough stance toward the West Germans has also not eased and chances for renewed negotiations are slim. Reykjavik reportedly is willing to resume talks if Bonn agrees to support an EC-Iceland tariff agreement and lifts its ban on the purchase of Icelandic fish.

Iceland's extension of the fishing limits and its hard line negotiating position have increased prospects for a resumption of the "cod war." Iceland's coast guard reportedly already escorted two West German fishing vessels

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out of the area. Bonn has said it will ignore the new limit until an agreement has been reached. Iceland may also detain British boats in the 50 to 200 mile zone.

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Canadian Minister of Communication Upset In
Key By-election

Prime Minister Trudeau's Liberal party received a major political set back yesterday when the newly appointed Minister of Communications, Pierre Juneau, was defeated in a by-election in what was considered one of the party's safest Montreal constituencies.

Juneau, was chairman of the Canadian Radio-Television Commission and not a member of the House of Commons, when he was named Minister of Communications after Gerard Pelletier was appointed ambassador to France in August. He was, therefore, selected as the Liberal's candidate for Pelletier's seat in the constituency of Hochelaga, which the Liberals had carried in every federal election for over fifty years and in last year's general election won by a majority of 4,000 votes.

In a stunning upset, Progressive-Conservative candidate Jacques Lavoie polled 8,236 votes to Juneau's 5,649. The Social Credit Party candidate, who had been expected to draw votes away from the Conservatives, received 1,729 votes.

The Hochelaga constituency is a French speaking, working class constituency and the Liberals, as the party in power at both the federal and provincial level, appear to have been the target of voter wrath over Canada's economic malaise, especially high unemployment and inflation. Trudeau's announcement of a tough wage and price control program on the eve of the election probably came too late to

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have much impact, but certainly did not help the beleaguered Juneau. Furthermore, the choice of Juneau as a candidate from outside the constituency broke a tradition of selecting local residents.

Juneau, a strong nationalist, was proud of being the chief architect of plans to strengthen Canadian national radio and television at the expense of US broadcasters as well as provincial interests. These issues, while receiving prominent press coverage, probably had little effect on the largely working class voters of Hochelaga.

Trudeau still retains a safe 16 vote majority in the House of Commons and, with a general election not required until 1979, is in no immediate danger. He does face the problem of choosing a new Minister of Communications, unless he can persuade **Juneau** to run in a different constituency or accept appointment to the Senate.

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Free Labor Concerned About Possible US
Withdrawal from ILO

The possibility that the US might signal its intention to withdraw from the International Labor Organization--in reaction to its extension of observer status to the Palestine Liberation Organization last summer--is causing great concern within international free labor and government circles.

The fear that a notice to withdraw--ILO rules require a two year advance notification--would be difficult to retract is uppermost in the minds of these officials, as they believe a US pull-out would be disastrous for the organization. Trade unionists, in particular, see continued value in the ILO's vocational training program and the organization's use as an instrument to pressure governmental adherence to international labor standards.

There is also concern that free labor, and the West in general, will be seriously weakened vis-a-vis communist pressures by the absence of the US. Labor leaders hold that US withdrawal would be more dangerous than was the US disaffiliation from the International Confederation of Free Trade Unions in 1970. Not only is the American contribution to the ILO budget at stake, but also US participation in the struggle for free-labor influence within the organization.

The French and Canadian governments are among those who have expressed apprehension over the consequences of a withdrawal. Such a move, it is felt, might be construed as a sign of resurfacing isolationism and protectionism in the US. The governments are also worried about the maintainance of free-world interests in the organization without US support.

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London Concerned That Belize-Guatemala Dispute
May Get Nasty

The Belize issue is being debated at the UN and Guatemalan leaders are still talking about an armed invasion if the UN adopts a resolution that calls for independence or self-determination without Guatemalan participation. The matter should come to a vote early next month.

The British say they are aiming for a resolution that would allow Guatemala to save face, but have acknowledged that Belize might be able to win support among non-aligned nations and its Caribbean friends for a resolution that Guatemala would find objectionable.

If this proves to be the case, the British say they will withdraw their support of the resolution, and the Guatemalans would then have a pretext to initiate hostilities.

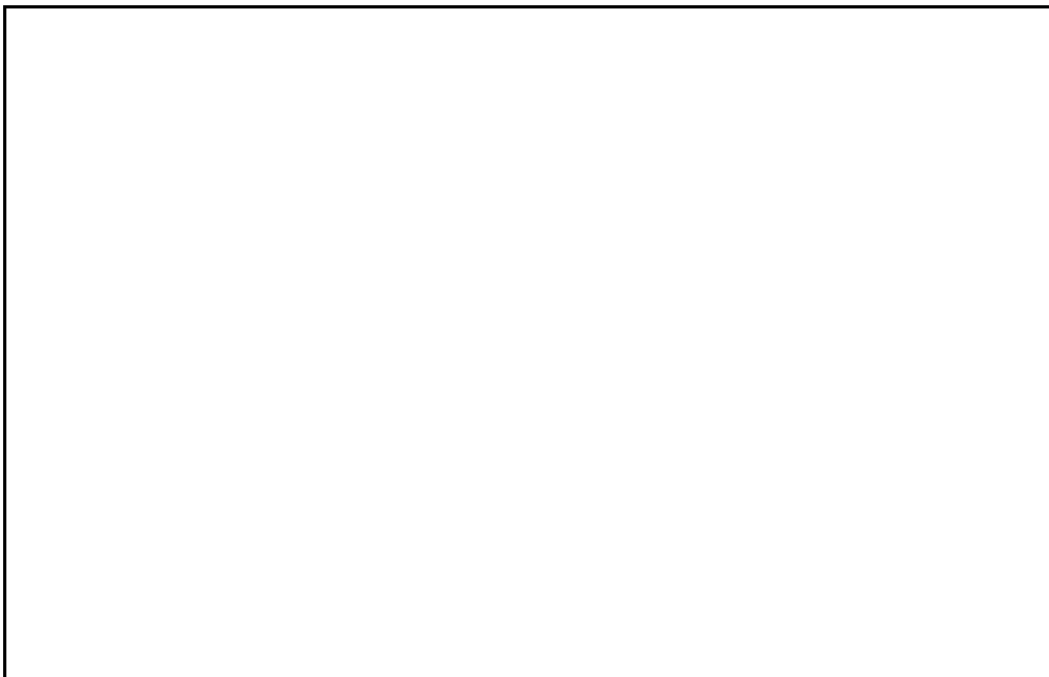
In any event, London believes its primary responsibility is to defend its colony and the British have strengthened their 600 man garrison in Belize just in case matters get out of hand. This move risks provoking Guatemala into military action. Some Guatemalan political and military leaders seem to be looking for justification for an invasion and the British reinforcement could provide the excuse.

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The British feel that Belize's independence is long overdue. Internal self-government was granted 12 years ago and full independence would have come about shortly were it not for the current territorial agreement.

London has rejected a Guatemalan suggestion that the dispute be submitted to the International Court of Justice. The British reason that:

- the ICJ proceedings would be as tedious and protracted as the current tripartite negotiations;
- the composition of the court militates against an objective decision; and
- the government of Belize opposes an ICJ adjudication.

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Portugal Seeking Western Assistance to Ease
Economic Crisis

Prime Minister Azevedo's October 13 speech to the nation emphasized Portugal's enormous economic problems, in particular the balance of payments crisis. The trade deficit will total almost \$2 billion again this year, despite the import surcharge imposed last May. Many essential supplies for the Angolan refugees entering Portugal will have to be imported, at the same time as the domestic economic difficulties are hurting exports. Meanwhile, earnings from tourism are down sharply, private investment inflows have almost ceased, and remittances from Portuguese working abroad are stagnating.

Without foreign assistance, the 1975 balance of payments deficit will likely reach \$1.1 billion. Foreign exchange reserves would be exhausted by year-end, although Portugal still would have gold reserves worth about \$4 billion at the current market price.

Lisbon's immediate aim is to try to obtain funds from the International Monetary Fund and the Bank for International Settlements. The remaining \$50 million of an existing loan from the Bank for International Settlements will be drawn down. Portugal has already drawn down most of its automatic credits at the Fund. It will continue to press--with EC support--for additional funds including loans from the oil facility. Such borrowing could cut this year's payments deficit to about \$950 million. Foreign exchange reserves would then probably last until January 1976.

Over the medium term Lisbon will look to the US and the EC for credits and use its large gold reserves as collateral for loans from US and

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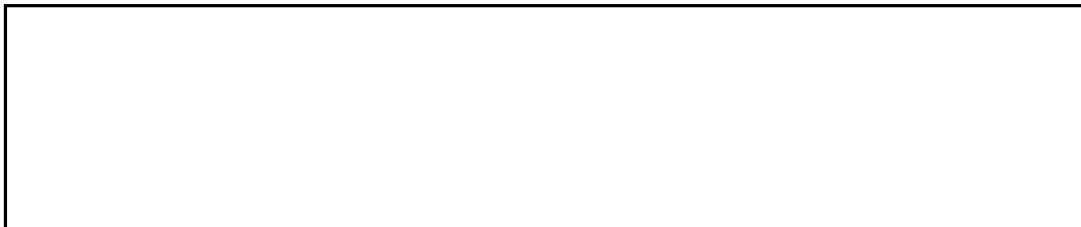
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European private banks. A gold pledge amendment is being negotiated for a \$150 million loan from a consortium led by a London financial institution, although its insistence on actual possession of the gold, and the right to sell it, if necessary, is causing difficulty.

For its part, the EC will provide Portugal with about \$175 million from the European Investment Bank over a period of two years for specific projects. The Nine will guarantee the loan and assume the costs of a three-percent interest rate subsidy, which adds approximately \$35 million to the cost of the program. Two million dollars in direct food aid will also be provided as part of the Community's disaster relief effort for the Angolan refugees.

The EC is trying to expedite the flow of aid, but funds cannot be transferred until individual projects are approved and this is not expected until mid-1976 at the earliest. EC Commission and European Investment Bank teams will travel to Portugal to help prepare appropriate projects.



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The EC will also set up a committee to monitor and coordinate the aid commitments of its individual members with Portugal. Most of these funds will flow into agricultural and industrial projects, with housing and construction receiving the highest priority.

The West Germans have already committed some \$28 million in low-interest loans to be used for investment in small and medium sized enterprises and for Angolan refugee assistance. The Netherlands and Denmark are also expected to provide aid, with The Hague expected to give \$19 million.

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These measures are seen as only a first step in offsetting Portugal's acute balance of payments problem. Lisbon looks to a more liberal EC trade policy as more effective long-term solution. Negotiations should begin before the end of the year on the "evolutionary clause" of the 1973 preferential trade agreement between Portugal and the Community. The EC Commission has suggested a variety of approaches which include an across-the-board reduction of tariffs on Portuguese goods, extending preferential treatment for agricultural products, improving benefits under the the Community's generalized system of trade preferences, and providing about \$400 million in loans under a new financial protocol.

The foreign ministers of the Nine meet in December to set specific guidelines for these negotiations. Deliberations on the size of the financial protocol, and EC willingness to accept increased exports of Portuguese wine and textiles, will sorely test the Community's resolve to assist Portugal.

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Government-Labor Talks in Italy Threaten
Government

Prime Minister Moro's fragile government is threatened by problems that have developed in its negotiations with the federation that represents Italy's three major labor organizations. The government and organized labor are trying to agree on guidelines for the renewal this year of contracts involving a quarter of the country's work force.

The leadership of the labor group is inclined to stress job security rather than the excessive wage demands which, the government maintains, would undercut economic recovery efforts. A compromise--under which the government's proposed 10 percent ceiling on wage increases would have been only slightly exceeded--seemed likely until just recently.

In the meantime, however, several major unions that are not affiliated with the federation have been striking to protest the prospect of limited wage hikes. This action has fed rank-and-file discontent in the federation and brought more pressure on the leadership to push for larger wage increases, especially for certain public sector employees.

Moro is thus finding it more difficult to reach a compromise that will satisfy both sides in the negotiations. Deputy Prime Minister La Malfa, a Republican, has threatened to resign--he has frequently done so in the past--if the government agrees to wage hikes that could jeopardize recovery by substantially reducing the funds available for investment. The Socialists--whose parliamentary support is crucial to Moro's survival--would also have trouble continuing their support unless labor comes out of the talks satisfied.

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The chief factor favoring Moro is the absence of any intra-party agreement on how to replace him--the situation, in fact, that has kept his "interim" government afloat for close to a year. Most politicians still see Moro's government as a convenient device that affords them further time to sort out their options in the aftermath of the Communists' electoral success last June and to lay the groundwork for the 1977 parliamentary election. The collapse of the government in present circumstances would likely produce an impasse that could encourage some political leaders to urge that the election be held ahead of schedule.

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